Economic Intelligence Weekly 18 June 75 ER EIW 75-24

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No Foreign Dissem

Economic Intelligence Weekly

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ER EIW 75-24
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Copy No 453

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Approved For Release 2000/09/14 : CIA-RDP86T00608R000500140024-7

ECONOMIC INTELLIGENCE WEEKLY

18 June 1975

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Overview

No Further Decline in the Rate of Inflation appears likely for most major developed countries over the next several months. The annual rate of increase in consumer prices in these countries, excluding the United Kingdom, dropped from 11% in October-December to 8% in January-March and held at approximately that rate in April. Thus far, improvement has been most marked in Canada, Japan, and the United States [redacted] 25X6

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The OECD now forecasts that price increases will hold at about the current rate for the rest of this year. We generally agree with this prediction, barring an unexpectedly large oil price hike this fall. Wage push will tend to maintain the current inflation rate.

The World Food Council Will Meet in Rome Next Week To Assess the Global Food Situation. It will review progress in implementing the resolutions of last November's World Food Conference to establish an agricultural development fund, a system of international reserves, and a consultative group on food production and investment in developing nations. Many countries are likely to lose a sense of urgency in pushing ahead with Conference resolutions if current predictions of a record world wheat harvest in 1975/76 are realized. The projected 7% increase in wheat output would lower prices and allow some rebuilding of stocks.

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Note: Comments and queries regarding the *Economic Intelligence Weekly* are welcomed. They may be directed to [redacted] the Office of Economic Research, Code 143, Extension 7892.

The Non-Oil LDCs Have a Common Objective in Pressing for Greater Earnings From Their Commodity Exports and in this respect will present a united front in the UN this fall. Individual LDCs nonetheless have widely differing views on commodity pricing, income stabilization, and stockpiling. The few radical countries, led by Algeria, have made the most strident demands. The major developed countries, anxious to ensure access to raw material supplies, are looking for the least costly way to accommodate the LDCs, with Britain and France the most conciliatory.

SDR Pricing Is Slowly Gaining International Acceptance. OPEC will probably link oil prices to the 16-currency SDR basket this fall, Suez canal revenues are now priced in SDRs, and an SDR bond issue was successfully marketed in Europe last week. SDR pricing should prove attractive to raw material producers, which want to protect their revenues against changes in the value of any one currency. Although use of SDRs may increase, most bilateral trade contracts will continue to be priced in dollars with forward currency markets providing the necessary hedge against exchange rate movements. (Confidential)

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RECORD WHEAT CROP STILL IN PROSPECT

Prospects for a record wheat crop in 1975/76 continue to be favorable. World production should rise about 7%, to 370 million tons, if normal weather prevails.

We estimate that the Soviet wheat harvest will reach 100 million tons, 5 million tons higher than recent predictions by the USDA and the International Wheat Council. Forecasts will have to be reexamined if several spring wheat areas do not receive rain within the next two weeks.

India is harvesting a larger crop than previously predicted. [redacted] 25X6
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25X6 Winter wheat prospects have improved in Western and Eastern Europe, with a record now forecast for the eastern countries.

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International grain markets have reacted to the prospect of a bumper wheat harvest in several ways.

- US cash prices for wheat have dropped 16% since mid-April and are now down 20% from a year ago.
- Futures quotations point to lower grain prices in the fall.
- Importers have delayed purchases in anticipation of lower prices; Turkey, for example, recently reneged on a contract for 500,000 tons of wheat bought at last year's high prices.
- EC wheat, subsidized for export, is undercutting US wheat in several markets.

Although wheat stocks of major exporting countries on 30 June 1975 will be a little larger than predicted, they will still be the smallest in 20 years. Major exporters, including the United States, thus will have to rely on current production to meet foreign demand in 1975/76. Barring bad weather in a major producing country, wheat supplies should meet consumption requirements and permit small additions to stocks. Major uncertainties in this appraisal include

- the quantity of wheat imported by the USSR, a decision that could be influenced strongly by market prices;
- the amount of wheat fed to livestock – especially in the United States – if domestic prices remain comparatively low; and
- the size of world rice and feedgrain crops, prospects for which remain good. (Confidential No Foreign Dissem)

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FOREIGN VIEWS ON INTERNATIONAL COMMODITY ISSUES

The non-oil LDCs have launched an unprecedented drive to improve their economic position at the expense of the developed countries. Encouraged by the success and support of OPEC, these countries have become more strident in their demands because the global recession has reduced their commodity exports at a time when import costs for oil and manufactures are soaring. The developed countries, convinced they can no longer ignore these demands, are looking for compromises that will be least costly and least disturbing to established institutions.

The Positions of Non-Oil LDCs

Although they will rally behind a common position eventually, the LDCs are far from agreement on how to proceed. The more radical countries – led by Algeria and including Peru, Jamaica, and Guyana – are pushing simultaneously on three fronts to raise commodity prices and keep them high: they favor formation of producer cartels, use of buffer stocks to stabilize commodity prices (at a high level), and indexing of raw material prices. These countries generally oppose discussions with developed countries, on individual products, arguing that the approach dilutes LDC bargaining power.

Most LDCs express strong feelings only about prices of their own exports. Malaysia, Indonesia, and Thailand are concerned about tin and rubber, Zambia, Zaire, and Chile about copper. These countries take a back seat in discussions of other commodities and of broad schemes to advance LDC interests. Brazil naturally favors international pricing schemes for coffee yet leans toward free markets for iron ore and bauxite – production of which is slated to grow substantially.

India, a large importer of raw materials, has been quiet on commodity matters because it does not want to publicly break ranks with other LDCs. South Korea, Taiwan, and Argentina have remained neutral for the same reason. Many nations, particularly the smaller Latin American and African countries, have simply let the more influential LDCs take the lead in dealing with developed countries.

The non-oil LDCs have won strong verbal support from OPEC countries, which want to divert LDC attention from the price of oil. OPEC states nonetheless have been unwilling to finance a broad scheme of commodity stockpiling. Saudi Arabia and Iran have shown considerable sympathy for LDC aspirations while insisting on security and a good return in committing their funds for any purpose.

Positions of the Developed Countries

The developed countries share a common concern about unrestricted and equitable access to raw material supplies. At the same time, they are responding in different ways to LDC demands. [redacted] 25X6

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USSR - EASTERN EUROPE: SHIFTING TERMS OF TRADE

The Soviet Union, as a massive exporter of fuels and raw materials, will be the main beneficiary of price changes being negotiated this year for CEMA trade. East European regimes will find themselves further squeezed in their efforts to raise living standards.

Under the new price system, apparently retroactive to 1 January 1975, each country will set prices bilaterally with its CEMA trading partners on the basis of average world market prices in 1972-74. Beginning in 1976, prices will be changed annually on the basis of average world prices in the previous five years.

Soviet export prices have been hiked 140% for crude oil, 100% for natural gas, 50% for electric power, and 58% for pig iron. Meanwhile, Polish prices for consumer goods and Hungarian prices for machinery and equipment sold to the Soviet Union have been increased by only 25% and 15%, respectively. Prices established by each East European country in negotiations with the Soviet Union generally are being used as a guide for negotiations with the other countries.

Romania and Poland will be least affected by the price rise for Soviet commodities. Romania should just about break even, because it exports petroleum to the USSR. For Poland, a doubling in the price of coal and coke exports will offset three-fifths of the price increase for oil, gas, and electric power imported from the USSR.

The resource-poor Hungarians already have concluded new price agreements with the USSR, Poland, and Czechoslovakia. Since prices are being raised more for raw materials than for manufactures, Hungarian terms of trade are declining 5% with Czechoslovakia and an estimated 10%-15% with the USSR. Hungarian and East German prices for their bilateral trade will not be changed this year, probably because changes would be offsetting.

This shifting of terms of trade against Eastern Europe will make it more difficult to raise living standards. In most of the countries, an increasingly well-educated and articulate population has become accustomed in recent years to substantial increases in consumption, particularly of supplies of meat and consumer durables. (Secret)

SOVIET HARD CURRENCY TRADE DEFICIT IN 1974

Soviet statistics published this month reveal that the USSR sustained a hard currency trade deficit of $900 million in 1974 rather than the surplus we projected last winter. The basic balance nonetheless was in surplus.

Exports

Exports generally turned out as expected. The value of Soviet hard currency sales increased by 58%, to $7.6 billion, even though the volume of several key exports fell.

- Earnings from oil increased from $1.2 billion to $2.5 billion. Volume fell from 710,000 b/d to 610,000 b/d, while prices averaged 2-1/2 times the 1973 level.
- Sales of roundwood rose from $390 million to $510 million. A 10% decline in volume was more than offset by a 45% increase in price.
- Coniferous lumber exports increased from $270 million to $410 million. Volume fell by 27%, while prices rose by 108%.

The value of coal, copper, aluminum, and cotton exports increased, largely on the strength of higher prices. Natural gas was the only important export commodity that increased more in volume than price.

Imports

Moscow took advantage of higher export revenues and depressed Western markets to quickly increase imports from hard currency areas. Despite a $1 billion decline in imports of grain and other food, the total value of hard currency purchases jumped by 30% -- from $6.6 billion to $8.5 billion.

Larger imports of rolled ferrous metals and of machinery dominated the increase in imports. Most of the steel was imported in the last half of 1974, indicating that Moscow took advantage of its higher export earnings to offset shortfalls in domestic steel production. In contrast, the rapid rise in the value of imports of plastics can be traced to higher prices rather than increased quantities. Moscow also found low Western beef prices to its liking, importing $135 million worth of meat in 1974.

USSR: Hard Currency Imports

Million US $

	1973	1974	Change
Total	**6,566**	**8,541**	**1,975**
Machinery and equipment	1,738	2,333	595
Pipe	425	654	229
Other rolled ferrous metals	440	1,219	779
Plastics	85	365	280
Other chemical products	174	316	142
Grain	1,423	523	-900
Other food	665	559	-106
Manufactured consumer goods	202	261	59
Other	1,414	2,311	897

Distribution of Trade

Western Europe continued to account for the major portion of Moscow's hard currency trade – 68% of Soviet exports and 58% of imports. Soviet imports from Japan rose rapidly owing to increased demand for Japanese steel, while imports from the United States fell sharply because of diminished grain purchases.

USSR: Hard Currency Trade[1]

Million US $

	1973			1974		
	Exports	Imports	Balance	Exports	Imports	Balance
Total	**4,818**	**6,566**	**-1,748**	**7,629**	**8,541**	**-912**
Developed West	4,375	5,625	-1,250	6,672	7,160	-488
Western Europe	3,315	3,098	217	5,194	4,966	228
United States	186	1,381	-1,195	234	746	-512
Japan	840	503	337	1,196	1,026	170
Other	34	643	-609	48	422	-374
Less developed countries	443	941	-498	958	1,381	-423
Asia	275	420	-145	359	685	-326
Africa	71	124	-53	284	249	35
Latin America	56	384	-328	144	409	-265
Europe	42	14	28	171	38	133

1. Source: Official Soviet foreign trade statistics.

Basic Balance of Payments

The USSR's basic hard currency surplus rose in 1974, although the improvement was not as great as in the merchandise account. Higher payments on medium- and long-term loans and a drop in gold sales reduced the receipts of hard currency from nontrade transactions.

USSR: Basic Hard Currency Balance

	Million US $	
	1973	1974
Merchandise trade	-1,748	-912
Gold sales	950	600
Other current account	-80	-95
Capital account[1]	1,010	865
Basic balance	132	458

1. Excludes short-term capital and medium-term Eurocurrency transactions.

Outlook for 1975

Soviet imports will climb substantially again in 1975. Imports from the United Kingdom and Japan in the first quarter of 1975 almost doubled in value compared with first quarter 1974, and the West German [redacted] sales to the USSR are running 61% above last year's level. Imports of machinery and equipment will account for much of the anticipated rise, as Western firms make delivery against the $6.5 billion in equipment ordered by Moscow in 1973-74. Recently signed contracts suggest that steel imports will match the record 1974 level. While prospects for an excellent harvest should reduce grain imports, sugar deliveries under contracts placed in 1974 will keep total food imports near 1974 levels. 25X1X

Soviet export prospects are less clear, depending heavily on Western economic conditions. Earnings from exports to the United Kingdom and Japan during the first quarter were 5% below a year earlier; sales to West Germany were up onl 1%. The USSR thus probably will incur a larger trade deficit than in 1974. Financing nonetheless should not be a problem for the Soviets. Net medium- and long-term credits backed by Western governments will exceed $1 billion; $350 million in Eurocurrency medium-term credits already are available; and the Soviets now are producing gold at an annual rate of $1.5 billion (current market prices). (Confidential)

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Notes

Eastern Europe: Grain Harvest Up

We estimate that Eastern Europe will harvest a grain crop of about 80 million tons this summer, compared with 75 million tons in 1974. If the weather continues to be favorable for growth and harvesting, output should be much higher than

last year in Bulgaria and Romania, slightly above last year's record in Hungary and East Germany, and down in Czechoslovakia and Poland. The increased production in the southern countries, which were hurt by drought last year, will permit larger exports and additions to drought-depleted stocks. We expect the northern countries to import almost 8 million tons of grain in FY 1976 – about the same as FY 1975 -- mainly to support their growing livestock sectors. (For Official Use Only)

Poland: Shopping for American Equipment

Minister of Machine Industry Tadeusz Wrzaszczyk arrived in the United States on 16 June to discuss with US businessmen and Eximbank officials the purchase of more than $1 billion worth of machinery and equipment. Wrzaszczyk's ministry is in the final stages of negotiations on (a) a $400 million General Motors proposal for a plant to produce delivery vans, (b) a $250 million Swindell-Dressler bid on the Stalowa Wola forge and foundry, (c) a $110 million RCA proposal for color picture tube technology, (d) new International Harvester projects, and (e) Rockwell and Grumman proposals for cooperative production of cropdusting aircraft and aircraft engines. Eximbank has already made preliminary commitments to finance some of these projects. (Confidential No Foreign Dissem)

Publications of Interest*

Communist Aid to Less Developed Countries of the Free World, 1974
(ER IR 75-16, June 1975, Secret No Foreign Dissem)

This report is the annual assessment of significant developments in Communist economic and military aid activities in less developed areas of the Free World. Formerly, this report was prepared for the Subcommittee on International Trade and Aid of the Economic Intelligence Committee, USIB, in the R-14 series.

China Builds Pipelines to Boost Petroleum Exports
(ER IR 75-18, June 1975, Secret No Foreign Dissem)

This report describes the Chinese construction program for oil pipelines and concludes that the new pipeline network will adequately support sharply rising exports of crude.

* Copies of these publications may be ordered by calling [redacted] Code 143, Extension 7234. 25X1A

ECONOMIC INDICATORS

Prepared by

The Office of Economic Research

June 18, 1975

Approved For Release 2000/09/14 : CIA-RDP86T00608R000500140024-7

Foreword

The *Economic Indicators* provide up-to-date information on changes in the domestic and external economic activities of the major non-Communist developed countries. To the extent possible, the *Economic Indicators* are updated from press ticker and Embassy reporting, so that the results are made available to the reader weeks - or sometimes months - before receipt of official statistical publications.

Comments and queries regarding the *Economic Indicators* are welcomed. They may be directed to [redacted] the Office of Economic Research, Code 143, Extension 7402 or 351-7402. 25X1A

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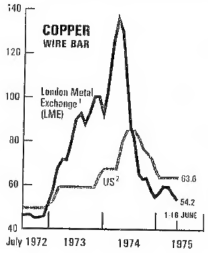
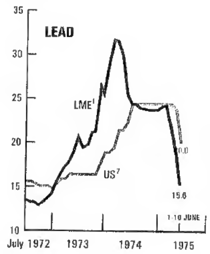
INDUSTRIAL MATERIALS PRICES Monthly Average Cash Price



¢ Per Pound

	LME	US
16 Jun	53.4	63.6
9 Jun	54.1	63.6
May 75	57.0	63.6
Jun 74	110.5	85.4

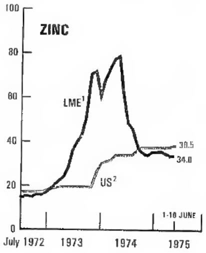


¢ Per Pound

	LME	US
16 Jun	15.8	19.0
9 Jun	15.3	19.0
May 75	19.0	23.7
Jun 74	25.8	22.4

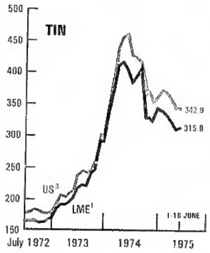
SELECTED MATERIALS

	Current	Dec 74	Jan 74	Jan 73
Aluminum Major US Prod., ¢/Lb	39.00	39.00	29.00	25.00
Steel Composite, $/LT	288.70	270.43	212.13	209.60
Iron Ore Non-Bessemer Old Range, $/LT	17.53	16.00	12.10	11.96
Chrome Ore Russian, $/MT	135.00	55.50	38.00	45.75
Chrome Ore S. Africa, $/LT	57.50	49.50	33.50	25.50
Ferrochrome US Charge, ¢/Lb	53.50	47.82	22.50	20.00
Nickel Major US Prod. Cathode, $/Lb	2.01	1.85	1.62	1.53
Manganese Ore 48% Mn., $/LT	67.20	64.19	52.80	31.40
Tungsten Ore 65% WO_3, $/ST	5,338.35	5,492.21	2,872.40	2,241.20
Mercury NY, $/76Lb Flask	155.00	224.90	275.54	282.50
Silver LME cash, ¢/Troy Oz	448.94	440.23	360.29	200.15



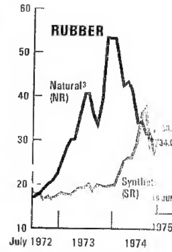
¢ Per Pound

	LME	US
16 Jun	33.8	38.5
9 Jun	34.8	38.5
May 75	33.7	38.1
Jun 74	63.7	34.7



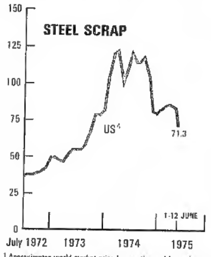
¢ Per Pound

	LME	US
16 Jun	313.6	344.0
9 Jun	319.5	348.0
May 75	312.8	342.4
Jun 74	409.4	462.8



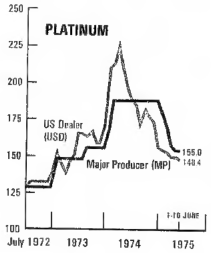
¢ Per Pound

	NR	SR
16 Jun	29.5	N.A.
9 Jun	29.2	N.A.
May 75	29.1	N.A.
Jun 74	42.0	26.6



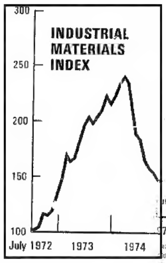
$ Per Long Ton

	US
12 Jun	69.8
9 Jun	71.2
May 75	82.1
Jun 74	110.6



$ Per Troy Ounce

	MP	USD
16 Jun	155.0	147.5
9 Jun	155.0	148.5
May 75	155.0	149.2
Jun 74	190.0	197.2



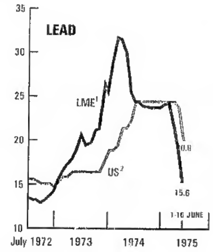
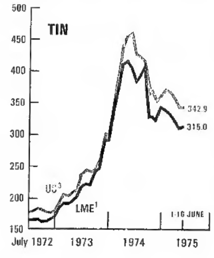
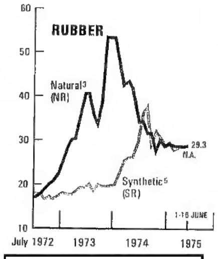
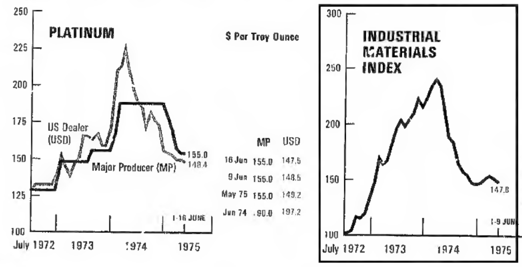
1970=100

This is a compiled index by the Economist for 19 raw materials which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

CPYRGHT

[1] Approximates world market price frequently used by major world producers and traders, although only small quantities of these metals are actually traded on the LME.
[2] Producers' price, covers most primary metals sold in the United States.
[3] Quoted on New York market. [4] Composite price for Chicago, Philadelphia, and Pittsburgh.
[5] S-type styrene, US f.a.s. export price.

LS PRICES Monthly Average Cash Price
CPYRGHT

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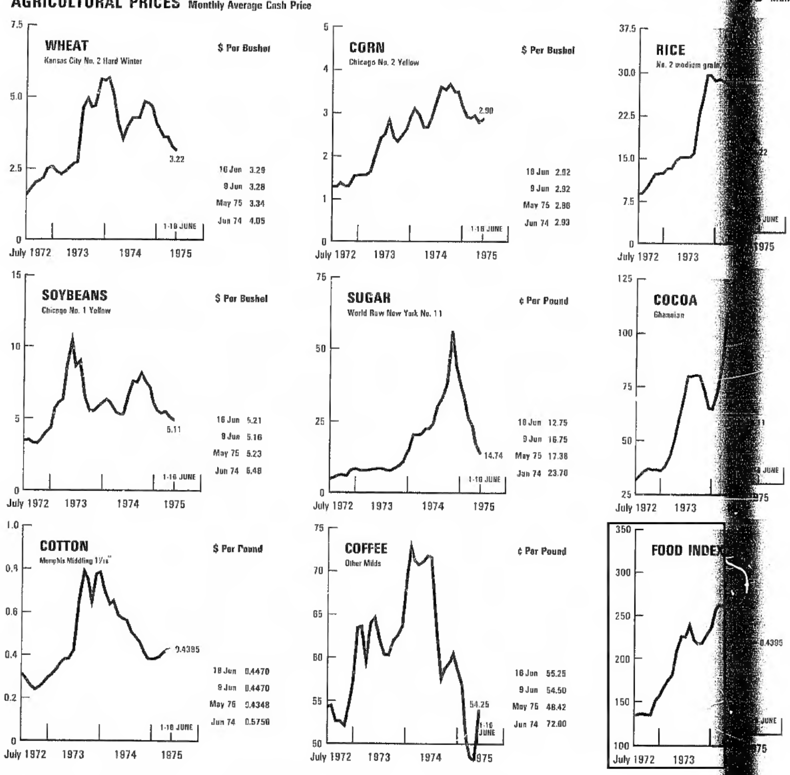
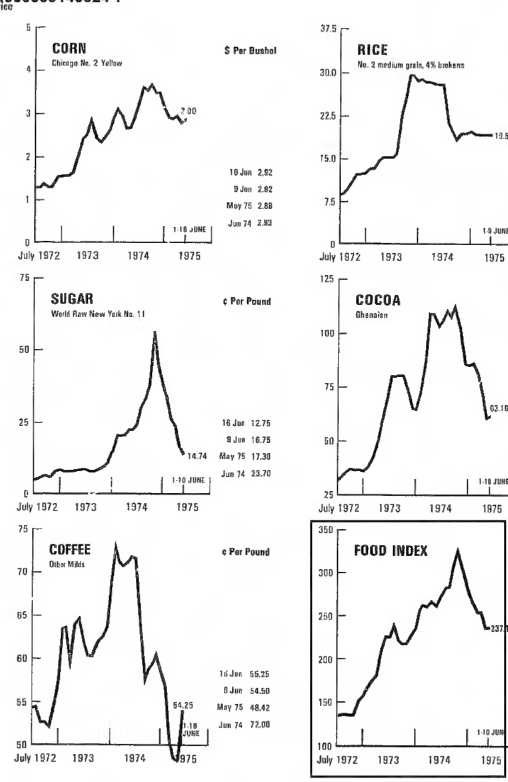
AGRICULTURAL PRICES Monthly Average Cash Price





1970 = 100

This is a compiled index by the Economist for 16 food commodities which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

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